

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND RESPONSES  
YEARS ENDED JUNE 30, 2020 AND 2019

# HUMBOLDT COUNTY MEMORIAL HOSPITAL

## TABLE OF CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
HOSPITAL FINANCIAL STATEMENTS:	
Statements of Net Position	4
Statements of Revenues, Expenses and Changes in Net Position	5
Statements of Cash Flows	6
FOUNDATION FINANCIAL STATEMENTS:	
Statements of Financial Position	8
Statements of Activities and Changes in Net Assets	9
Statements of Cash Flows	10
NOTES TO FINANCIAL STATEMENTS	11
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule	39
Schedule of the Hospital's Proportionate Share of the Net Pension Liability	40
Schedule of Hospital Contributions	41
Notes to Required Supplementary Information - Pension Liability	42
SUPPLEMENTARY INFORMATION:	
Schedule of Expenditures of Federal Awards	43
COMMENTS AND RECOMMENDATIONS:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	45
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	47
Schedule of Findings and Questioned Costs	49

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Officials  
June 30, 2020

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Natalie Wergeland, Vice-Chairperson	Hardy, Iowa	2020
David Boswell, Secretary	Humboldt, Iowa	2022
Ashley Emick, Treasurer	Humboldt, Iowa	2022
Tim McCartan	Humboldt, Iowa	2022
Pam Olson	Humboldt, Iowa	2020
Molly Varangkounh	Humboldt, Iowa	2022
<u>Chief Executive Officer:</u>		
Michelle Sleiter	Humboldt, Iowa	
<u>Chief Financial Officer:</u>		
AJ Mason	Fort Dodge, Iowa	

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CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Humboldt County Memorial Hospital  
Humboldt, Iowa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Humboldt County Memorial Hospital (Hospital) and its discretely presented component unit, Humboldt County Memorial Hospital Foundation (Foundation), as of and for the years ended June 30, 2020 and 2019, and the related notes to financial statements, which collectively comprise the Hospital's financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital and its discretely presented component unit's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital and its discretely presented component unit's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees  
Humboldt County Memorial Hospital

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Humboldt County Memorial Hospital and its discretely presented component unit as of June 30, 2020 and 2019 and the changes in their financial position, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note S, the Hospital may be adversely affected by the global Novel Coronavirus (COVID-19) pandemic. The Hospital cannot at this time reasonably estimate the length or severity of this pandemic, or the extent to which the disruptions may impact the Hospital's financial position, results of operations, or cash flows in 2021 and beyond. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedules of the Hospital's Proportionate Share of the Net Pension Liability and of Hospital Pension Contributions (and the related notes) on pages 3 through 3f and on pages 39 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Humboldt County Memorial Hospital's basic financial statements. The supplementary information on pages 1 and 43 through 44, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Trustees  
Humboldt County Memorial Hospital

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated February 12, 2021 on our consideration of Humboldt County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of Humboldt County Memorial Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Humboldt County Memorial Hospital's internal control over financial reporting and compliance.

*Stonebrook, Bell, Hughes & Co. P.C.*

Atlantic, Iowa  
February 12, 2021



*Committed to Serve; Compassion to Care*

## **HUMBOLDT COUNTY MEMORIAL HOSPITAL**

1000 N. 15TH STREET

HUMBOLDT, IOWA 50548

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### **HUMBOLDT COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis**

The financial statements enclosed contain the financial information of Humboldt County Memorial Hospital (the Hospital) and Humboldt County Memorial Hospital Foundation (the Foundation). This discussion and analysis of the Hospital's financial performance provides an overview of their financial activity for the years ended June 30, 2020, 2019, and 2018. We encourage readers to consider it in conjunction with the Hospital's financial statements, which follow. The financial information of the discretely presented Foundation is not a part of this discussion and analysis.

#### **FINANCIAL HIGHLIGHTS**

The Hospital's net position decreased by \$614,204 or 4.7 percent from 2019 to 2020 and increased by \$347,663 or 2.8 percent from 2018 to 2019.

The Hospital reported an operating loss of \$1,809,121 in 2020 and an operating loss of \$71,884 in 2019. The 2020 results reflect a decrease in operating results of \$1,737,237 as compared to 2019 results. Operating results increased in 2019 as compared to 2018 by \$1,258,792.

Net non-operating revenues increased by \$566,209 or 140.0 percent in 2020 compared to 2019. Net non-operating revenues increased by \$217,073 or 115.8 percent in 2019 compared to 2018.

#### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Hospital's financial activities.

The basic financial statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows. These statements provide information about the activities of the Hospital on a comparative basis, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Hospital's budget for the year, and the Hospital's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the operations of the Hospital, including various comparative statistical and financial information.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis - Continued

**REPORTING THE HOSPITAL'S FINANCIAL ACTIVITIES**

*The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position*

One of the most important questions asked about the Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way which helps answer this question. These statements include all assets (restricted and unrestricted), deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position, which is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources as one way to measure the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial position is improving or deteriorating. Additional factors, such as changes in the Hospital's patient base, changes in local medical staff, access to visiting medical specialists, the Hospital's short and long term strategy, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic conditions, are also important in making this determination.

*The Statement of Cash Flows*

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis - Continued

**THE HOSPITAL'S NET POSITION**

The Hospital's net position is the difference between its assets and deferred outflows of resources and liabilities and deferred inflows of resources as reported in the Statements of Net Position on page 4 of the financial statements. The following table, Table 1, presents a summary of the Hospital's Statements of Net Position.

**Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position**

	2020	2019	2018
Assets and Deferred Outflows of Resources:			
Current assets	\$ 16,671,168	\$ 7,922,008	\$ 6,240,886
Capital assets, net	21,705,232	20,745,745	11,190,036
Other non-current assets	6,916,797	2,706,387	3,345,218
Deferred outflows of resources	<u>2,045,516</u>	<u>2,580,408</u>	<u>2,486,845</u>
Total assets and deferred outflows of resources	<u>\$ 47,338,713</u>	<u>\$ 33,954,548</u>	<u>\$ 23,262,985</u>
Liabilities:			
Current liabilities	\$ 8,559,768	\$ 2,488,051	\$ 2,550,707
Long-term debt	15,158,842	10,835,042	1,045,530
Net pension liability	<u>6,238,851</u>	<u>6,738,941</u>	<u>6,440,541</u>
Total liabilities	29,957,461	20,062,034	10,036,778
Deferred Inflows of Resources	5,049,025	946,083	627,409
Net Position:			
Invested in capital assets, net of related debt	7,296,106	9,029,387	8,969,767
Restricted expendable	21,563	52,924	117,140
Unrestricted	<u>5,014,558</u>	<u>3,864,120</u>	<u>3,511,891</u>
Total net position	<u>12,332,227</u>	<u>12,946,431</u>	<u>12,598,798</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 47,338,713</u>	<u>\$ 33,954,548</u>	<u>\$ 23,262,985</u>

The Hospital's total assets and deferred outflows of resources increased from \$33,954,548 in 2019 to \$47,338,713 in 2020, a 39.4% increase. Capital assets increased from \$20,745,745 in 2019 to \$21,705,232 in 2020, a 4.6% increase. Designated and restricted assets increased from \$3,496,503 in 2019 to \$6,934,033 in 2020, a 98.3% increase as the Hospital received funds to prepare, prevent and respond to COVID-19. Operating results decreased in 2020 by \$1,737,237 from 2019, primarily due to an increase in the provision of depreciation and other expenses related to the building expansion project completed in 2020.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis - Continued

**OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION**

In 2020, the Hospital's net position decreased by \$614,204, as shown in Table 2. This decrease is a result of an increase in expenses, primarily driven by an increase in the provision of depreciation and other expenses related to the building expansion project completed in 2020. Additionally, the Hospital recognized \$660,310 in CARES Act provider relief funds in 2020. Total net position at the end of 2020 was \$12,332,227 and \$12,946,431 at year-end 2019.

**Table 2: Operating Results and Changes in Net Position**

	2020	2019	2018
Operating Revenues:			
Net patient service revenues	\$ 18,400,807	\$ 18,385,076	\$ 16,093,012
Other operating revenues	<u>1,849,059</u>	<u>1,596,337</u>	<u>1,707,041</u>
Total operating revenues	20,249,866	19,981,413	17,800,053
Operating Expenses:			
Salaries and benefits	12,801,864	12,320,608	11,484,570
Professional fees	2,261,923	2,204,398	2,179,313
Other operating expenses	5,289,319	4,341,678	4,217,026
Depreciation and amortization	<u>1,705,881</u>	<u>1,186,613</u>	<u>1,249,820</u>
Total operating expenses	22,058,987	20,053,297	19,130,729
Operating Loss	( 1,809,121)	( 71,884)	( 1,330,676)
Non-Operating Revenues and (Expenses):			
County taxes	635,664	540,194	513,270
Investment income	89,277	42,175	28,416
CARES Act provider relief funds	660,310	--	--
Non-capital grants and contributions	92,712	8,679	25,825
Other non-operating expenses, net	<u>( 507,237)</u>	<u>( 186,531)</u>	<u>( 380,067)</u>
Total non-operating revenues, net	970,726	404,517	187,444
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions	( 838,395)	332,633	( 1,143,232)
Capital Grants and Contributions	<u>224,191</u>	<u>15,000</u>	<u>12,757</u>
Increase (decrease) in net position	( 614,204)	347,633	( 1,130,475)
Net Position Beginning of Year	<u>12,946,431</u>	<u>12,598,798</u>	<u>13,729,273</u>
Net Position End of Year	<u>\$ 12,332,227</u>	<u>\$ 12,946,431</u>	<u>\$ 12,598,798</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis - Continued

**OPERATING INCOME (LOSS)**

The first component of the overall change in the Hospital's net position is its Operating Income or Loss - generally, the difference between Net Patient Service and Other Operating revenues and the expenses incurred to perform those services. In 2020, the Hospital reported an Operating Loss of (\$1,809,121) and an Operating Loss of (\$71,884) in 2019.

Gross operating revenues have shown an increase from 2019 to 2020. This increase was seen in one major category: outpatient revenue. Overall, gross patient revenue increased by \$2,452,516 or 10.2% in 2020.

Revenue increases were seen in many service lines across the organization. The service lines with the largest revenue increases were pain center revenue (up \$1,932,444 / 416.5%), counseling revenue (up \$417,089 / \$0 in 2019), and radiology revenue (up \$401,078 / 11.2%).

Other service lines saw decreases during the year. Those service lines with the largest decrease were operating and recovery rooms revenue (down \$917,919 / 38.7%), emergency services revenue (down \$84,119 / 4.5%), and respiratory therapy revenue (down \$75,733 / 10.7%).

Revenue adjustments as a percentage of total gross patient service revenue increased to \$8,084,197 or 30.5% of total gross patient service revenue in 2020. This is compared to \$5,647,412 or 23.5% of total gross patient service revenue in 2019. Adjustments associated with Medicare and Medicaid charges were the primary driver behind the increase. Overall deductions from revenue increased from 23.5% in 2019 to 30.5% in 2020.

The increase in adjustments associated with Medicare charges was significantly aided by the Hospital's favorable outcome associated with its related party dispute with the Medicare intermediary recognized in 2019. The Hospital recognized 6 years of related party costs associated with cost reporting years 2010 – 2016. This amounts to \$1,550,000 of favorable impact in 2019. This favorable outcome will benefit future years for the Hospital as the likelihood of needing to create a reserve for related party funding has significantly decreased.

The Hospital's gross patient revenue increased by \$2,452,516 or 10.2% in 2020. Net patient revenue was \$18,400,807 in 2020 as compared to \$18,385,076 in 2019. This represents an increase of \$15,731 or 0.1% in net patient service revenue. Total net revenue came in at \$20,249,866 for 2020, which was \$268,453 or 1.3% greater than 2019.

The total cost of labor – wages and benefits – continues to be the largest component of the Hospital's expenses with general supplies being the second highest. As part of the long-term strategic growth focus of the Hospital, staff were added in a few key areas. Those service lines seeing the largest salary increase were: Operating and Recovery Rooms (increase of \$115,788) and Counseling (increase of \$109,149). The addition of these employees has led to higher benefit expense in both Social Security tax and Iowa Public Employee's Retirement System (IPERS) expense. The main driver of increased employee benefits was the increase in IPERS of \$200,458 or 16.4%. The Hospital is under a self-funded health plan. Group health insurance decreased \$37,051 or 2.2%.

Increase in labor costs of \$338,882 (3.9%)

Increase in employee benefits of \$142,374 (3.9%)

## HUMBOLDT COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis - Continued

General supplies and other expenses were another area of increased expense of the Hospital. Supplies and other expenses increased \$947,641 (21.8%) from the prior year. Most of the increase in cost was in the following areas: information systems (increased \$227,752 or 87.5%), pain center (increase \$167,326 or 592.5%), and plant operation and maintenance (increased \$91,382 or 87.7%). Other areas recognized a decrease in this category. Those areas seeing the most significant decrease were: operation and recovery rooms (decreased \$109,090 or 32.1%), public health (decreased by \$16,250 or 27.6%), and cardiovascular diagnostics (decreased by \$14,740 or 37.9%).

The Hospital provides care to patients regardless of their ability to pay for these services. This service to the community is consistent with the goals of the Hospital when it was established in 1970 when it was agreed that a portion of the Hospital's costs would be subsidized by property tax revenues, making the facility more affordable to the County's lower income residents. This is reflected in the Hospital's accounts written off as uncollectible or as charity care. In 2020, \$516,410 in accounts was written off under these two categories. This figure is a decrease of \$293,820 from 2019 or 36.3%.

### **NON-OPERATING REVENUES AND EXPENSES**

Non-operating revenues consist primarily of property taxes levied by the Hospital and income from investments. The Hospital increased its tax asking to approximately \$636,000 in 2020. This is an increase from approximately \$540,000 in 2019. Investment income increased by \$47,102 or 111.7%. The Hospital holds a majority of its investments in low-risk bank certificates of deposit. Noncapital grants and contributions increased by \$84,033 or 968.2%. Interest and financing expenses increased by \$296,652 or 140.9% due to payments of interest for the new capital expansion debt incurred in 2020. In addition, the Hospital recognized \$660,310 in CARES Act provider relief funds in 2020. Overall, net non-operating revenues increased from \$404,517 to \$970,726 from 2019 to 2020.

### **THE HOSPITAL'S CASH FLOWS**

Changes in the Hospital's cash flows are consistent with changes in operating losses and non-operating revenues and expenses. The net change in the Hospital's cash position was an increase of \$12,893,755 in 2020 from 2019. In looking at the components of cash flow the Hospital recognized a significant increase (increase of \$9,313,925) in cash provided by non-capital financing activities. This was due to receiving \$5,002,547 of Medicare accelerated and advance payments and \$4,131,875 of CARES Act provider relief funds in 2020. A positive \$1,127,657 of cash provided by operating activities was realized due to volume increases and continued improvement in the revenue cycle. The Hospital saw a positive cash flow from financing activities of \$1,980,788. This was anticipated as the Hospital received proceeds from debt for the expansion project throughout 2020. Investing activities showed a decrease in cash (decrease of \$77,488) primarily due to advances on note receivable.

### **BUDGETARY HIGHLIGHTS**

Actual expenses were lower than the budget by \$67,776. Actual revenues were lower than budgeted by \$1,058,882.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets:**

At the end of 2020, the Hospital had approximately \$21.7 million invested in capital assets, net of accumulated depreciation, as detailed in Note F to the financial statements. In 2020, the Hospital purchased new property and moveable equipment costing \$2,665,368. The significant increase in capital additions was the result of completing the building expansion project.

## HUMBOLDT COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis - Continued

### **Debt:**

At year-end 2020, the Hospital had \$14,385,982 in revenue notes, a \$2,221,600 Paycheck Protection Program loan (PPP loan) and a \$23,144 capital lease outstanding. The PPP loan was obtained in April 2020 for the purpose of protecting payroll during the COVID-19 pandemic. This is an increase from 2019 where the Hospital had \$10,901,444 of revenue note outstanding and \$112,951 of capital lease outstanding. See Note G to the financial statements.

### **OTHER ECONOMIC FACTORS**

In March of 2020, the World Health Organization declared a global pandemic due to Covid-19. The Hospital limited patient services because of recommendations from the Governor of Iowa and the Iowa Department of Public Health. The Hospital received funding from CARES Act provider relief funds, Medicare accelerated and advance payments, Paycheck Protection Program and other grants to offset the negative financial impact of the pandemic. The length and severity of the pandemic is unknown and the Hospital is not able to predict the financial impact it will have on operations for fiscal year 2021 and beyond.

Physician recruitment and retention continues to be a goal for the Hospital. The focus in this area is turning towards the recruitment and retention of both primary care and specialty providers that offer a wide range of services. Early in 2017 the Hospital lost one primary care provider (Dr. Ryan Wood). Additionally, in early 2018 the Hospital lost a second primary care provider (Dr. Megan Wood). These providers were heavy referral providers to the Hospital. The Hospital was successful in recruiting an additional primary care provider (Dr. Long) who began practice in 2019. Additionally, the Hospital was successful in recruiting Dr. Paul, with an anticipated start date in 2020. These providers will help to offset the loss of Dr. Dvorak who retired in 2019.

The Hospital continues to deal with the rising cost of health insurance for the general population. While the Affordable Care Act has increased the health coverage for our patients overall, these patients are paying more into their coverage as their rates have generally increased every year since 2014. These rate increases are being driven by losses realized by the Medicaid Managed Care Organizations (MCO) in Iowa. Also, the increase in patients utilizing high deductible health plans has shifted more of the cost of care to the beneficiaries. This has had an impact on the Hospital in terms of higher bad debt and charity care.

Employee retention is an important factor in the success of the Hospital. The need to provide competitive wages and benefits is important in retaining good employees and contributing to the growth of the Hospital.

The Hospital began a large expansion project in early 2018. The completion date of this project was in November 2019. This project was part of the overall long term strategic plan for the Hospital. The expansion project includes an updated primary care clinic which will be leased and operated by UnityPoint Clinic. The second floor of the project will have space for the Hospital's therapy areas. This project will help the Hospital remain competitive in many areas as well as grow market share in the future.

The Hospital continues to provide health insurance coverage to its employees through a self-funded plan. Changes in utilization by the employees can have a significant impact on the cost realized by HCMH. This continues to be an area of risk for HCMH as this area is difficult to predict on a year over year basis.

The Hospital received a favorable outcome as it related to Medicare payments and the recognition of related party costs in 2019. As noted above this had a significantly favorable 1 year impact on the 2019 financial statements of \$1,550,000. This outcome is significant for future years as it appropriately allows the Hospital to recognize home office costs on the Medicare cost report, and receive payments for these costs.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis - Continued

**CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Financial Officer, at Humboldt County Memorial Hospital, 1000 North 15<sup>th</sup> Street, Humboldt, Iowa 50548.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Statements of Net Position  
June 30,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash	\$ 12,934,278	\$ 3,414,621
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$1,188,000 in 2020, \$1,178,000 in 2019)	2,383,375	2,133,901
Other receivables	115,039	64,947
Inventory	182,093	160,161
Prepaid expense	305,383	269,415
Estimated third-party payor settlements	--	450,000
Succeeding year property tax receivable	636,000	602,000
Designated and restricted assets	115,000	826,963
Total current assets	<u>16,671,168</u>	<u>7,922,008</u>
Designated and Restricted Assets:		
Internally designated assets	3,440,905	3,443,579
Restricted assets	<u>3,493,128</u>	<u>52,924</u>
	6,934,033	3,496,503
Less amounts required to meet current liabilities	<u>115,000</u>	<u>826,963</u>
	6,819,033	2,669,540
Capital Assets:		
Depreciable capital assets, net	21,628,256	6,987,778
Non-depreciable capital assets	<u>76,976</u>	<u>13,757,967</u>
	21,705,232	20,745,745
Other Assets:		
Notes receivable	<u>97,764</u>	<u>36,847</u>
Total assets	45,293,197	31,374,140
Deferred Outflows of Resources:		
Pension related deferred outflows	<u>2,045,516</u>	<u>2,580,408</u>
Total assets and deferred outflows of resources	<u>\$ 47,338,713</u>	<u>\$ 33,954,548</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2020</u>	<u>2019</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 1,471,884	\$ 179,353
Accounts payable	585,731	1,246,734
Accrued employee compensation	870,350	757,915
Payroll taxes withheld and accrued	203,416	207,611
Accrued interest payable	25,935	11,101
Senior housing deposits	102,452	85,337
Estimated third-party payor settlements	5,300,000	--
Total current liabilities	<u>8,559,768</u>	<u>2,488,051</u>
Long-Term Liabilities:		
Note payable, less current maturities	1,119,617	--
Revenue notes, less current maturities	14,039,225	10,811,898
Capital lease obligation, less current maturities	--	23,144
Net pension liability	6,238,851	6,738,941
Total long-term liabilities	<u>21,397,693</u>	<u>17,573,983</u>
Total liabilities	29,957,461	20,062,034
Deferred Inflows of Resources	5,049,025	946,083
Net Position:		
Invested in capital assets, net of related debt	7,296,106	9,029,387
Restricted - expendable	21,563	52,924
Unrestricted	5,014,558	3,864,120
Total net position	<u>12,332,227</u>	<u>12,946,431</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 47,338,713</u>	 <u>\$ 33,954,548</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Statements of Revenues, Expenses and Changes in Net Position  
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Revenue:		
Net patient service revenue	\$ 18,400,807	\$ 18,385,076
Other revenue	<u>1,849,059</u>	<u>1,596,337</u>
Total revenue	20,249,866	19,981,413
Expenses:		
Nursing service	4,186,404	3,997,104
Other professional service	7,321,576	6,833,452
Senior housing	519,557	533,088
General service	2,117,865	1,875,596
Fiscal and administrative service	6,207,704	5,627,444
Provision for depreciation	<u>1,705,881</u>	<u>1,186,613</u>
Total expenses	<u>22,058,987</u>	<u>20,053,297</u>
Operating Loss	( 1,809,121)	( 71,884)
Non-Operating Revenues (Expenses):		
County taxes	635,664	540,194
Noncapital grants and contributions	92,712	8,679
CARES Act provider relief funds	660,310	--
Investment income	89,277	42,175
Gain on disposal of equipment	--	24,054
Interest and financing expense	<u>( 507,237)</u>	<u>( 210,585)</u>
Non-operating revenues, net	<u>970,726</u>	<u>404,517</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions	( 838,395)	332,633
Capital Grants and Contributions	<u>224,191</u>	<u>15,000</u>
Increase (Decrease) in Net Position	( 614,204)	347,633
Net Position Beginning of Year	<u>12,946,431</u>	<u>12,598,798</u>
Net Position End of Year	<u>\$ 12,332,227</u>	<u>\$ 12,946,431</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Statements of Cash Flows  
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 18,865,809	\$ 18,140,515
Cash paid to suppliers	( 10,701,004)	( 9,623,995)
Cash paid to employees	( 8,886,207)	( 8,617,481)
Other revenue	<u>1,849,059</u>	<u>1,596,337</u>
Net cash provided by operating activities	1,127,657	1,495,376
Cash flows from non-capital financing activities:		
County tax revenue	635,664	540,194
Medicare accelerated and advance payments	5,002,547	--
Noncapital grants and contributions - CARES Act provider relief funds	4,131,875	--
Noncapital grants and contributions - other	<u>92,712</u>	<u>8,679</u>
Net cash provided by non-capital financing activities	9,862,798	548,873
Cash flows from capital and related financing activities:		
Capital grants and contributions	224,191	15,000
Proceeds from revenue notes	3,484,538	9,968,865
Proceeds from long-term debt	2,221,600	--
Principal paid on capital leases	( 89,807)	( 85,534)
Capital expenditures	( 493,017)	( 187,630)
Construction in progress expenditures	( 2,874,314)	( 10,936,706)
Proceeds from disposal of equipment	--	24,054
Interest paid	<u>( 492,403)</u>	<u>( 200,432)</u>
Net cash provided by (used in) capital and related financing activities	1,980,788	( 1,402,383)
Cash flows from investing activities:		
Investment income	89,277	42,175
Advances on note receivable	( 103,333)	( 12,500)
Change in designated assets	<u>( 63,432)</u>	<u>( 24,974)</u>
Net cash provided by (used in) investing activities	( 77,488)	4,701
Net increase in cash and cash equivalents	12,893,755	646,567
Cash and cash equivalents beginning of year	<u>3,693,891</u>	<u>3,047,324</u>
Cash and cash equivalents end of year	<u>\$ 16,587,646</u>	<u>\$ 3,693,891</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 12,934,278	\$ 3,414,621
Cash in designated and restricted assets	<u>3,653,368</u>	<u>279,270</u>
	<u>\$ 16,587,646</u>	<u>\$ 3,693,891</u>

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Statements of Cash Flows - continued  
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$( 1,809,121)	\$( 71,884)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	1,705,881	1,186,613
Amortization	42,416	9,820
Salaries and wages capitalized	--	( 5,228)
Change in assets and liabilities		
Accounts receivable	( 299,566)	209,296
Inventory	( 21,932)	19,666
Prepaid expense	( 35,968)	( 44,032)
Deferred outflows of resources - pension	534,892	( 93,563)
Accounts payable, trade	40,960	162,742
Accrued employee compensation	112,435	47,507
Payroll taxes withheld and accrued	( 4,195)	14,222
Senior housing deposits	17,115	1,143
Estimated third-party payor settlements	747,453	( 455,000)
Net pension liability	( 500,090)	298,400
Deferred inflows of resources - pension	597,377	215,674
Total adjustments	<u>2,936,778</u>	<u>1,567,260</u>
Net cash provided by operating activities	<u>\$ 1,127,657</u>	<u>\$ 1,495,376</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL FOUNDATION  
Statements of Financial Position  
June 30,

ASSETS

	<u>2020</u>	<u>2019</u>
Assets:		
Cash	\$ 150,156	\$ 175,882
Investments	4,129,739	4,062,365
Accrued interest receivable	710	710
Restricted assets	<u>131,677</u>	<u>100,741</u>
Total assets	<u>\$ 4,412,282</u>	<u>\$ 4,339,698</u>

NET ASSETS

Net Assets:		
With donor restrictions	\$ 131,677	\$ 100,741
Without donor restrictions	<u>4,280,605</u>	<u>4,238,957</u>
Total net assets	<u>\$ 4,412,282</u>	<u>\$ 4,339,698</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL FOUNDATION  
Statements of Activities and Changes in Net Assets  
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Changes in Net Assets Without Donor Restrictions:		
Revenues, Gains and Other Support:		
Contributions	\$ --	\$ 10,500
Investment income	<u>178,077</u>	<u>200,009</u>
Total revenues, gains and other support	<u>178,077</u>	<u>210,509</u>
Expenses:		
Assistance to the Hospital	213,794	10,000
Professional fees	3,600	3,400
Supplies and other expense	<u>18,486</u>	<u>12,953</u>
Total expenses	<u>235,880</u>	<u>26,353</u>
Operating Income (Loss)	( 57,803)	184,156
Net Assets Released from Restrictions	38,896	2,080
Change in Unrealized Gains and Losses on Investments	<u>60,555</u>	<u>17,327</u>
Increase in Net Assets Without Donor Restrictions	41,648	203,563
Change in Net Assets with Donor Restrictions:		
Contributions	55,508	14,317
Fundraising events (net of \$14,654 and \$26,229 direct expenses for 2020 and 2019 respectively)	14,324	25,639
Net assets released from restrictions	<u>( 38,896)</u>	<u>( 2,080)</u>
Increase in Net Assets With Donor Restrictions	<u>30,936</u>	<u>37,876</u>
Increase in Net Assets	72,584	241,439
Net Assets Beginning of Year	<u>4,339,698</u>	<u>4,098,259</u>
Net Assets End of Year	<u>\$ 4,412,282</u>	<u>\$ 4,339,698</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL FOUNDATION  
Statements of Cash Flows  
Year ended June 30,

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received through contributions and fundraising	\$ 84,486	\$ 76,685
Cash paid to suppliers and Hospital	( 235,880)	( 26,353)
Fundraising expenses	( 14,654)	( 26,229)
Investment income	<u>178,077</u>	<u>200,009</u>
Net cash provided by operating activities	12,029	224,112
Cash flows from investing activities:		
Change in investments	<u>( 68,626)</u>	<u>( 199,782)</u>
Net increase (decrease) in cash and cash equivalents	( 56,597)	24,330
Cash and cash equivalents beginning of year	<u>276,623</u>	<u>252,293</u>
Cash and cash equivalents end of year	<u>\$ 220,026</u>	<u>\$ 276,623</u>
Reconciliation of cash and cash equivalents to the statements of financial position:		
Cash in assets	\$ 150,156	\$ 175,882
Cash in restricted assets	<u>69,870</u>	<u>100,741</u>
	<u>\$ 220,026</u>	<u>\$ 276,623</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Reporting Entity

The Organization includes a foundation and a critical access county hospital with related healthcare ancillary, outpatient, long-term care, and senior housing services. Humboldt County Memorial Hospital (Hospital) is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Humboldt County Memorial Hospital Foundation (the Foundation) has been identified as a legally separate component unit of the Hospital, and accordingly, the financial statements of the Foundation have been included as a discretely presented component unit on pages 8 through 10. The Foundation is a not-for-profit corporation exempt from income tax under Section 501 of the Internal Revenue Code. The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS to maintain its exempt status. Substantially all of the economic resources of the Foundation are designated for the direct benefit of the Hospital.

Separate financial statements of the Hospital have been issued which do not include the discretely presented financial statements of the Foundation.

2. Basis of Presentation

The Statement of Net Position displays the Hospital's assets, deferred outflows of resources, liabilities, deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net position:*

- a. *Nonexpendable* - Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.
- b. *Expendable* - Expendable net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the Hospital's policy to use restricted net position first.

3. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less including designated and restricted assets.

6. Accounts Receivable

Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts and for contractual adjustments.

7. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

8. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

9. Designated and Restricted Assets

Internally designated assets consist of funds designated by the Board of Trustees for operations, capital acquisitions and future employee health costs. The Board retains control over these funds, and may, at its discretion, subsequently use them for other purposes. Restricted assets include donor restricted gifts, debt proceeds to be spent on the construction project and funds whose use is limited by law or contractual terms of grant agreements.

10. Net Assets - Foundation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* - Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

*Net Assets With Donor Restrictions* - Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the organization must continue to use the resources in accordance with the donor's instructions.

Unconditional promises to give cash and other assets to the Foundation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the Foundation, unless the donor provides more specific directions about the period of its use.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

11. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to forty years for buildings and land improvements and three to twenty years for equipment). Amortization of capital leases is included with depreciation on the statement of revenues, expenses and changes in net position.

12. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Hospital after the measurement date but before the end of the Hospital's reporting period.

13. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. The succeeding year property tax receivable has been recorded as a current asset and the related property tax revenue has been recorded as a deferred inflow of resources. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

14. Compensated Absences

Hospital policies permit most employees to accumulate vacation, holiday, and sick time benefits that may be realized as paid time off. Expense and the related liability are recognized as benefits are earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

15. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

16. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position applicable to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, the unrecognized items not yet charged to pension expense and the unamortized portion of the net difference between projected and actual earnings on pension plan assets and the unearned portion of CARES Act provider relief funds that will not be recognized as revenue until the year for which they are expended.

17. Statement of Revenues, Expenses and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Property tax levied to finance the current year is included as non-operating revenues and peripheral or incidental transactions are reported as non-operating revenues and expenses.

18. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

19. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

20. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service, depending on the timing of the charity determination.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute services, inpatient nonacute services, and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries.

Medicaid - Through March of 2016 the Medicaid payment system was similar to Medicare. In April 2016 the State of Iowa Medicaid program switched to a managed care payment system, with payment rates based on previous year cost reports. The Hospital will continue to file cost reports to determine payment rates for future years.

The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2016. The Medicaid cost reports have been finalized through June 30, 2016. However, finalized cost reports are subject to re-opening by the intermediary within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

A schedule of patient service revenue and related adjustments for the years ended June 30, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Gross patient service revenue:		
Inpatient and swing bed services	\$ 2,344,403	\$ 2,325,115
Long-term care	1,975,494	1,889,321
Outpatient	<u>22,165,107</u>	<u>19,818,052</u>
Total gross patient service revenue	<u>26,485,004</u>	<u>24,032,488</u>
Deductions from gross patient service revenue:		
Medicare	3,633,083	865,681
Medicaid	1,267,897	1,365,626
Provision for bad debts	394,089	644,718
Charity care	65,902	54,629
Other deductions	<u>2,723,226</u>	<u>2,716,758</u>
Total deductions from gross patient service revenue	<u>8,084,197</u>	<u>5,647,412</u>
Net patient service revenue	<u>\$ 18,400,807</u>	<u>\$ 18,385,076</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE C - RESTRICTED NET POSITION/NET ASSETS

Restricted expendable assets are available for the following purposes:

<u>Hospital</u>	<u>2020</u>	<u>2019</u>
Construction costs	\$ 4,425	\$ 35,786
For use by specified departments	17,138	17,138
COVID-19 related expenses or lost revenue	<u>3,471,565</u>	<u>--</u>
	<u>\$ 3,493,128</u>	<u>\$ 52,924</u>
 <u>Foundation</u>		
Hospice	\$ 1,436	\$ 1,436
Assisted Living	529	529
Long Term Care	2,978	2,978
Dietary	1,786	1,786
Ambulance and Defibrillator	--	9,612
Emergency Room	7,070	7,070
Radiology	5,013	5,013
Wellness	151	151
Genevieve's Place	150	150
Rehab Services	4,430	3,928
REACH Program	8,795	9,289
Cardiac Rehab	903	903
Surgery	2,000	2,000
Building Project	53,082	52,952
IPC	1,169	1,169
Transportation	100	100
COVID-19 related expenses	40,410	--
Various	<u>1,675</u>	<u>1,675</u>
	<u>\$ 131,677</u>	<u>\$ 100,741</u>

The Hospital and Foundation have no restricted nonexpendable assets or endowments at June 30, 2020 or 2019.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE C - RESTRICTED NET POSITION/NET ASSETS - Continued

Following is a summary of the use of temporarily restricted assets during the year ended June 30:

<u>Hospital</u>	<u>2020</u>	<u>2019</u>
Purchase of capital items	\$ 255,552	\$ 79,216
COVID-19 related expenses or lost revenue	<u>660,310</u>	<u>--</u>
	<u>\$ 915,862</u>	<u>\$ 79,216</u>
 <u>Foundation</u>		
Assisted Living	\$ --	\$ 749
REACH	1,494	999
IPC	--	182
Long-term Care	--	150
Ambulance	<u>37,402</u>	<u>--</u>
	<u>\$ 38,896</u>	<u>\$ 2,080</u>

NOTE D - ENDOWMENT FUNDS - FOUNDATION

Of the \$4,280,605 (\$4,238,957 as of June 30, 2019) of net assets without donor restrictions as of June 30, 2020, \$3,861,292 (\$3,807,473 for 2019) has been designated by the Foundation's Board to establish an endowment fund to generate income to further the Foundation's mission. These funds remain under the control of the Foundation Board, which may, at its discretion, later use the funds for other purposes. These funds are summarized as follows:

	<u>2020</u>	<u>2019</u>
Cash	\$ --	\$ 115,471
Equity securities	<u>3,861,292</u>	<u>3,692,002</u>
	<u>\$ 3,861,292</u>	<u>\$ 3,807,473</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2020 and 2019 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. See Note Q regarding the Foundation's deposits. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; common stocks; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated and restricted assets and investments is as follows:

<u>Hospital</u>	<u>2020</u>	<u>2019</u>
Internally Designated Assets:		
Capital acquisitions:		
Certificates of deposit	\$ 414,105	\$ 769,512
Interest receivable	976	1,674
Operations:		
Certificates of deposit	2,858,848	2,440,737
Interest receivable	6,736	5,310
Employee health insurance:		
Cash	<u>160,240</u>	<u>226,346</u>
	<u>\$ 3,440,905</u>	<u>\$ 3,443,579</u>
Restricted Assets:		
Cash	<u>\$ 3,493,128</u>	<u>\$ 52,924</u>
<u>Foundation</u>		
Investments:		
Certificates of deposit	\$ 268,447	\$ 370,363
Equity securities	<u>3,861,292</u>	<u>3,692,002</u>
	<u>\$ 4,129,739</u>	<u>\$ 4,062,365</u>
Assets with Donor Restrictions:		
Cash	\$ 69,870	\$ 100,741
Equity securities	<u>61,807</u>	<u>--</u>
	<u>\$ 131,677</u>	<u>\$ 100,741</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE E - DEPOSITS AND INVESTMENTS - Continued

Investment income for designated and restricted assets, cash equivalents, and other investments is comprised of the following for the year ended June 30:

<u>Hospital</u>	<u>2020</u>	<u>2019</u>
Interest income	\$ <u>89,277</u>	\$ <u>42,175</u>
<u>Foundation</u>		
Interest income	\$ <u>7,315</u>	\$ <u>7,394</u>
Dividend income	<u>170,762</u>	<u>192,615</u>
	<u>\$ <u>178,077</u></u>	<u>\$ <u>200,009</u></u>
Other Changes in Net Assets Without Donor Restrictions:		
Change in unrealized gains and losses on available for sale securities	\$ <u>60,555</u>	\$ <u>17,327</u>

Interest Rate Risk - The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

NOTE F - FINANCIAL ASSETS AND LIQUIDITY RESOURCES (FOUNDATION)

Financial assets of the Foundation available for general expenditure, that is, without donor or other restrictions or designations limiting their use, within twelve months of the statement of financial position date, comprise the following as of June 30:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ <u>150,156</u>	\$ <u>60,411</u>
Certificates of deposit and interest receivable	<u>269,157</u>	<u>371,073</u>
Total financial assets available within one year	<u>\$ <u>419,313</u></u>	<u>\$ <u>431,484</u></u>

The Foundation does not have a formal liquidity policy but generally maintains financial assets in liquid form (cash or short term certificates of deposit) to be able to meet its current obligations. Cash in excess of current obligations is generally invested in equity securities, but those funds could be accessed if needed for current obligations.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE G - FAIR VALUE MEASUREMENTS

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets (Level 1), and Level 3 inputs are unobservable and have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 1 inputs were available for all investments at June 30, 2020 and 2019.

*Level 1 Fair Value Measurements*

The fair value of equity securities, which consist entirely of mutual funds, is based on quoted net asset values of the shares held by the Foundation at year-end.

The following tables set forth, by level within the fair value hierarchy, the Foundation's investments at fair value as of June 30, 2020 and 2019:

		Fair Value Measurements at Reporting Date Using:
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)
<u>June 30, 2020</u>		
Equity securities	\$ 3,923,099	\$ 3,923,099
<u>June 30, 2019</u>		
Equity securities	\$ 3,692,002	\$ 3,692,002

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE H - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2020 and 2019, was as follows:

	<u>2020</u>	<u>2019</u>
Receivable from:		
Patients	\$ 577,341	\$ 672,414
Medicare	1,178,948	1,247,310
Medicaid	620,275	278,784
Wellmark	458,879	483,774
Other commercial insurance carriers	529,900	326,579
Others	<u>206,032</u>	<u>303,040</u>
	3,571,375	3,311,901
Less allowances for doubtful accounts and contractual adjustments	<u>1,188,000</u>	<u>1,178,000</u>
	<u>\$ 2,383,375</u>	<u>\$ 2,133,901</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE I - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2020 and 2019 were as follows:

<u>Cost</u>	<u>Balance 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2020</u>
Land Improvements	\$ 408,295	\$ 29,554	\$ --	\$ 437,849
Buildings and Fixed Equipment	12,346,230	15,602,237	--	27,948,467
Major Movable Equipment	7,859,293	714,568	--	8,573,861
Senior Housing Assets	<u>5,272,391</u>	<u>--</u>	<u>--</u>	<u>5,272,391</u>
	25,886,209	16,346,359	--	42,232,568
<u>Depreciation</u>				
Land Improvements	222,164	23,721	--	245,885
Buildings and Fixed Equipment	8,002,531	1,026,533	--	9,029,064
Major Movable Equipment	6,738,597	441,188	--	7,179,785
Senior Housing Assets	<u>3,935,139</u>	<u>214,439</u>	<u>--</u>	<u>4,149,578</u>
Total Depreciation	<u>18,898,431</u>	<u>1,705,881</u>	<u>--</u>	<u>20,604,312</u>
Total Depreciable Capital Assets, Net	<u>\$ 6,987,778</u>	<u>\$ 14,640,478</u>	<u>\$ --</u>	<u>\$ 21,628,256</u>
Construction in Progress	\$ 13,709,473	\$ 2,207,351	\$15,888,342	\$ 28,482
Land	<u>48,494</u>	<u>--</u>	<u>--</u>	<u>48,494</u>
Total Non-Depreciable Capital Assets	<u>\$ 13,757,967</u>	<u>\$ 2,207,351</u>	<u>\$15,888,342</u>	<u>\$ 76,976</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE I - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2019</u>
Land Improvements	\$ 397,775	\$ 10,520	\$ --	\$ 408,295
Buildings and Fixed Equipment	12,324,979	21,251	--	12,346,230
Major Movable Equipment	7,666,703	201,490	8,900	7,859,293
Senior Housing Assets	<u>5,272,391</u>	<u>--</u>	<u>--</u>	<u>5,272,391</u>
	25,661,848	233,261	8,900	25,886,209
<u>Depreciation</u>				
Land Improvements	201,181	20,983	--	222,164
Buildings and Fixed Equipment	7,582,365	420,166	--	8,002,531
Major Movable Equipment	6,233,345	514,152	8,900	6,738,597
Senior Housing Assets	<u>3,703,827</u>	<u>231,312</u>	<u>--</u>	<u>3,935,139</u>
Total Depreciation	<u>17,720,718</u>	<u>1,186,613</u>	<u>8,900</u>	<u>18,898,431</u>
Total Depreciable Capital Assets, Net	<u>\$ 7,941,130</u>	<u>\$ ( 953,352)</u>	<u>\$ --</u>	<u>\$ 6,987,778</u>
Construction in Progress	\$ 3,200,412	\$10,519,692	\$ 10,631	\$ 13,709,473
Land	<u>48,494</u>	<u>--</u>	<u>--</u>	<u>48,494</u>
Total Non-Depreciable Capital Assets	<u>\$ 3,248,906</u>	<u>\$10,519,692</u>	<u>\$ 10,631</u>	<u>\$ 13,757,967</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE J - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2020 and 2019 follows:

	<u>Balance 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2020</u>	<u>Current Portion</u>
Long-Term Liabilities:					
Revenue Notes:					
Series 2017A	\$ 2,000,000	\$ --	\$ --	\$ 2,000,000	\$ 167,681
Series 2017B	8,000,000	--	--	8,000,000	115,664
Series 2017C	901,444	3,484,538	--	4,385,982	63,412
Paycheck Protection Program Loan	--	2,221,600	--	2,221,600	1,101,983
Capital Lease Obligation	112,951	--	89,807	23,144	23,144
Net Pension Liability	<u>6,738,941</u>	<u>--</u>	<u>500,090</u>	<u>6,238,851</u>	<u>--</u>
Total Long-Term Liabilities	<u>\$ 17,753,336</u>	<u>\$ 5,706,138</u>	<u>\$ 589,897</u>	<u>\$ 22,869,577</u>	<u>\$1,471,884</u>
	<u>Balance 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2019</u>	<u>Current Portion</u>
Long-Term Liabilities:					
Revenue Notes:					
Series 2017A	\$ 832,577	\$ 1,167,423	\$ --	\$ 2,000,000	\$ 16,428
Series 2017B	50,001	7,949,999	--	8,000,000	65,713
Series 2017C	50,001	851,443	--	901,444	7,405
Capital Lease Obligation	198,485	--	85,534	112,951	89,807
Net Pension Liability	<u>6,440,541</u>	<u>298,400</u>	<u>--</u>	<u>6,738,941</u>	<u>--</u>
Total Long-Term Liabilities	<u>\$ 7,571,605</u>	<u>\$10,267,265</u>	<u>\$ 85,534</u>	<u>\$ 17,753,336</u>	<u>\$ 179,353</u>

The Series 2017A Hospital Revenue Note was issued in December, 2017 in a principal amount up to \$2,000,000 and is collateralized by the Hospital's net revenues. Through June 30, 2020, the Hospital had drawn the full \$2,000,000 on this note to pay off the Series 2008 Notes and pay for construction costs incurred on the Hospital's construction project which was completed in November, 2019. The note carries a current interest rate of 3.71% per annum. The rate will be adjusted to reflect the Maximum Corporate Tax Rate on December 20, 2020, 2025 and 2030, as defined in the note agreement. Interest only on outstanding principal is payable monthly commencing January 20, 2018. Commencing January 20, 2021, the note matures in equal monthly installments (as adjusted for changes in the interest rate and amount of principal outstanding) of principal and interest through December 20, 2035. Subsequent to year end, this note was refinanced into three separate notes payable with monthly maturities ranging from \$3,000 to \$8,333 per month, including interest ranging from 0% to 2.5% per annum, through December 15, 2035.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE J - NON-CURRENT LIABILITIES - Continued

The Series 2017B Hospital Revenue Note was issued in December, 2017 in a principal amount up to \$8,000,000 and is collateralized by the Hospital's net revenues. Through June 30, 2020, the Hospital had drawn the full \$8,000,000 on this note to pay for construction costs incurred on the Hospital's construction project which was completed in November, 2019. The note carries a current interest rate of 3.71% per annum. Interest only on outstanding principal is payable monthly commencing January 20, 2018. All remaining outstanding principal and interest shall be due and payable December 20, 2020. Subsequent to year end, this note and the Series 2017C note were refinanced with a \$12,385,982 USDA Direct Loan Bond with monthly maturities of \$39,261 per month, including interest at 2.25% per annum, through July 15, 2060.

The Series 2017C Hospital Revenue Note was issued in January, 2018 in a principal amount up to \$5,925,000 and is collateralized by the Hospital's net revenues. Through June 30, 2020, the Hospital had drawn \$4,385,982 on this note to pay for construction costs incurred on the Hospital's construction project which was completed in November, 2019. The note carries a current interest rate of 3.71% per annum. Interest only on outstanding principal is payable monthly commencing January 20, 2018. All remaining outstanding principal and interest shall be due and payable January 4, 2021. Subsequent to year end, this note and the Series 2017B note were refinanced with a USDA Direct Loan Bond as discussed in the previous paragraph.

Paycheck Protection Program Loan (PPP Loan) - The Small Business Administration (SBA) Paycheck Protection Program Loan was obtained in April, 2020 from a local bank in a principal amount of \$2,221,600 for the purpose of protecting payroll during the COVID-19 pandemic. The loan carries an interest rate of 1% per annum. Starting in October, 2020, the loan matures in monthly installments of principal and interest of \$124,921 through March, 2022. The loan is unsecured and subject to forgiveness if certain criteria are met. The Hospital expects all proceeds to be forgiven.

The combined annual debt service on the revenue notes and capital lease obligation is expected to require approximately 34% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$597,000 and \$2,007,000 respectively.

Assets recorded under the capital lease, which carries an interest rate of 4.90%, consist of major movable equipment items with totals as follows:

	<u>2020</u>	<u>2019</u>
Cost	\$ 338,493	\$ 338,493
Less: Accumulated Amortization	<u>186,170</u>	<u>139,041</u>
Net Book Value	<u>\$ 152,323</u>	<u>\$ 199,452</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE J - NON-CURRENT LIABILITIES - Continued

Scheduled principal and interest repayments on long-term debt including refinancing subsequent to year end are as follows:

Year Ending June 30,	Long-Term Debt		Capital Lease		Total
	Principal	Interest	Principal	Interest	
2021	\$ 1,448,740	\$ 536,231	\$ 23,144	\$ 190	\$ 2,008,305
2022	1,489,531	574,841	--	--	2,064,372
2023	375,321	282,013	--	--	657,334
2024	380,855	276,479	--	--	657,334
2025	386,516	270,818	--	--	657,334
2026-2030	2,022,201	1,264,470	--	--	3,286,671
2031-2035	1,504,752	1,101,919	--	--	2,606,671
2036-2040	1,445,374	932,881	--	--	2,378,255
2041-2045	1,592,193	763,467	--	--	2,355,660
2046-2050	1,781,592	574,068	--	--	2,355,660
2051-2055	1,993,520	362,140	--	--	2,355,660
2056-2060	2,186,987	124,920	--	--	2,311,907
	<u>\$ 16,607,582</u>	<u>\$7,064,247</u>	<u>\$ 23,144</u>	<u>\$ 190</u>	<u>\$ 23,695,163</u>

The pension liability, as further described in Note K, represents an actuarial estimate of the Hospital's share of the Iowa Public Employee Retirement System (IPERS) unfunded pension liability.

NOTE K - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE K - PENSION PLAN - Continued

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE K - PENSION PLAN - Continued

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2020 and 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Hospital contributed 9.44% of covered payroll for a total rate of 15.73%. Protective occupation members contributed 6.61% and 6.81% respectively of covered payroll and the Hospital contributed 9.91% and 10.21% respectively of covered payroll, for a total rate of 16.52% and 17.02% respectively.

The Hospital's contributions to IPERS for the year ended June 30, 2020 and 2019 totaled \$794,250 and \$785,656, respectively.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2020 and 2019, the Hospital reported a liability of \$6,238,851 and \$6,738,941, respectively for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the Hospital's proportion was 0.107740%, which was an increase of 0.001251% from its proportion measured as of June 30, 2018.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE K - PENSION PLAN - Continued

For the years ended June 30, 2020 and 2019, the Hospital recognized pension expense of \$1,421,850 and \$1,221,392, respectively. The Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020 Deferred Outflows of Resources	2020 Deferred Inflows of Resources	2019 Deferred Outflows of Resources	2019 Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,039	\$ 224,995	\$ 37,262	\$ 153,341
Changes of assumptions	676,817	298	974,856	486
Net difference between projected and actual earnings on IPERS investments	--	715,069	--	189,156
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	556,410	1,098	782,634	1,100
Hospital contributions subsequent to the measurement date	<u>794,250</u>	<u>--</u>	<u>785,656</u>	<u>--</u>
	<u>\$ 2,045,516</u>	<u>\$ 941,460</u>	<u>\$ 2,580,408</u>	<u>\$ 344,083</u>

Deferred outflows of resources related to pensions of \$794,250 and \$785,656 represent the amount the Hospital contributed subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ending June 30, 2021 and 2020, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	2020 Amount	2019 Amount
2020	\$ --	\$ 726,841
2021	353,175	453,725
2022	26,611	127,937
2023	17,570	119,053
2024	( 78,302)	23,113
2025	( 9,248)	--
	<u>\$ 309,806</u>	<u>\$ 1,450,669</u>

There were no non-employer contribution entities at IPERS.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE K - PENSION PLAN - Continued

Actuarial Assumptions - The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

Rate of Inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increases (effective June 30, 2017)	3.25% to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
Total	<u>100%</u>	

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE K - PENSION PLAN - Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Hospital's proportionate share of the net pension liability - June 30, 2020	\$ 11,153,236	\$ 6,238,851	\$ 2,116,807
	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Hospital's proportionate share of the net pension liability - June 30, 2019	\$ 11,517,919	\$ 6,738,941	\$ 2,730,210

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

Payables to IPERS - At June 30, 2020 and 2019, the Hospital reported payables to IPERS of \$95,039 and \$95,567, respectively, for legally required employer contributions and \$39,395 and \$40,206, respectively, for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE L - DEFERRED INFLOWS OF RESOURCES

The deferred inflows of resources include CARES Act provider relief funding, succeeding year property tax, and pension plan earnings. The CARES Act provider relief funding is to reimburse the Hospital for lost revenues, and operating and capital cost due to COVID-19 through June 30, 2021. The succeeding year property tax represents taxes certified by the County Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Pension earnings represents the net difference between projected and realized earnings on IPERS' investments.

	<u>2020</u>	<u>2019</u>
CARES Act provider relief funding	\$ 3,471,565	\$ --
Succeeding year property tax	636,000	602,000
Pension earnings	<u>941,460</u>	<u>344,083</u>
	<u>\$ 5,049,025</u>	<u>\$ 946,083</u>

NOTE M - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's accounting and personnel departments are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2020 was approximately \$777,000 (\$659,000 at June 30, 2019). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE N - AFFILIATED ORGANIZATIONS

The Hospital has an operating agreement with Trinity Health Systems (Trinity). Under the agreement, the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salary and benefits. The Hospital also pays a monthly fee to Trinity for management services. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations. During the year ended June 30, 2019, Trinity also reimbursed the Hospital for costs associated with the Hospital's Chief Financial Officer's time spent doing interim work for Trinity. Below is a list of transactions between the Hospital and this affiliate for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Fees to Trinity for personnel and services	\$ <u>370,731</u>	\$ <u>348,305</u>
Fees received from Trinity for personnel	\$ <u>--</u>	\$ <u>16,834</u>

Humboldt County Memorial Hospital Foundation (the Foundation)

As indicated in Note A1, the Foundation has been identified as a component unit of the Hospital. The Hospital received \$213,794 and \$10,000 from the Foundation during the years ended June 30, 2020 and 2019, respectively, for the purchase of property and equipment. The Hospital received no funds from the Foundation during the years ended June 30, 2020 and 2019 for operating assistance. The Foundation has approved a \$1,000,000 pledge to the Hospital related to the Hospital building project completed in November, 2019, with \$100,000 payable in July, 2020, then \$8,334 payable monthly through August, 2029. As of June 30, 2020, the Foundation has no material pledges receivable related to Hospital projects.

NOTE O - OTHER POST EMPLOYMENT BENEFITS (OPEB)

**Plan Description:** The Hospital operates a self-funded single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The Hospital currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2020, the Hospital contributed \$1,661,249 and plan members eligible for benefits contributed \$407,596 to the plan. At June 30, 2020, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE O - OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued

OPEB Benefits: Individuals who are employed by Humboldt County Memorial Hospital and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	0
Active employees	<u>118</u>
Total	<u><u>118</u></u>

Net OPEB Obligation: Management of the Hospital considers any OPEB obligation, which may exist, to be immaterial. No liability has been recorded.

NOTE P - FUNCTIONAL CLASSIFICATION OF EXPENSES

The Foundation's primary program service is supporting health and wellness activities for the benefit of Humboldt County residents. Most expenses are attributable either to the primary service, or to support activities, however, certain expenses are attributable to both the primary service and to support activities. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocations, mostly time and effort for management and general and fundraising costs.

Expenses by functional classification for the year ended June 30, 2020 consist of the following:

	2020			
	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Assistance to Hospital	\$ 213,794	\$ --	\$ --	\$ 213,794
Professional fees	--	3,600	--	3,600
Supplies and other expense	<u>1,494</u>	<u>16,992</u>	<u>--</u>	<u>18,486</u>
	<u>\$ 215,288</u>	<u>\$ 20,592</u>	<u>\$ --</u>	<u>\$ 235,880</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE P - FUNCTIONAL CLASSIFICATION OF EXPENSES - Continued

Expenses by functional classification for the year ended June 30, 2019 consist of the following:

	2019			
	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Assistance to Hospital	\$ 10,000	\$ --	\$ --	\$ 10,000
Professional fees	--	3,400	--	3,400
Supplies and other expense	3,965	8,988	--	12,953
	<u>\$ 13,965</u>	<u>\$ 12,388</u>	<u>\$ --</u>	<u>\$ 26,353</u>

NOTE Q - COMMITMENTS AND CONTINGENCIES

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Humboldt County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three fiscal years.

Self-Funded Health Insurance

The Hospital has established an employee health insurance fund. Under the self-insured plan, the Hospital pays claims from this fund up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2020, the Hospital has designated funds in excess of actual claims paid of \$160,240 (\$226,346 at June 30, 2019). This amount of funds, shown under internally designated assets, would be made available should they be needed to pay claims in the future. The estimated amount of unpaid claims at June 30, 2020 is \$115,000 (\$125,000 at June 30, 2019) and is included in accounts payable on the statements of net position.

Litigation

The Hospital has been named as a defendant in a lawsuit. Legal counsel is unable to evaluate the eventual outcome of the lawsuit. Management believes that, should any liability eventually result, the Hospital's insurance coverage is adequate to cover any potential settlement. Therefore, no related liability has been accrued.

Notes Receivable

The notes receivable represent funds advanced under agreements with healthcare professionals practicing in the community. The agreements include commitments by the healthcare professionals to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE Q - COMMITMENTS AND CONTINGENCIES - Continued

Construction in Progress

The \$28,482 in construction in progress at June 30, 2020 is related to various small projects for which no material commitments exist as of the date of this report. Any additional funding will be provided by funds generated internally.

CARES Act - Provider Relief Funds

The Hospital received \$4,131,875 of provider relief funds through the CARES Act signed into law on March 27, 2020. The funds advanced to the Hospital are to be used for lost revenues attributable to, or expenses incurred to prevent, prepare for and respond to, the coronavirus pandemic. The Hospital has recognized provider relief funds of \$660,310 through June 30, 2021 in these financial statements based on guidance as of the date of the report. In early calendar year 2021, the Hospital will be required to submit documentation to the U.S. Department of Health and Human Services (HHS) and attest to its use of provider relief funds. HHS has continued to provide guidance and clarification on the use of provider relief funds since passage of the CARES Act, and further guidance is expected in the future. Future guidance and clarification from HHS could have a material effect on the amount of provider relief funds recognized by the Hospital.

CARES Act - Accelerated and Advance Payment Program

The CARES Act also created the accelerated and advance payment program (AAPP) administered by the Centers for Medicare and Medicaid Services. The AAPP is available for providers to ensure cash flows for providers when there is a disruption in Medicare claims processing. The Hospital utilized the AAPP to ensure they have the necessary resources needed to combat potential delays in claims processing during the coronavirus pandemic. The total amount advanced to the Hospital was \$5,002,547. Medicare payments owed to the Hospital will be recouped by the Medicare Administrative Contractor beginning one year after the receipt of the AAPP funds and will continue for a twenty-eight month period. Any remaining balance after the recoupment period will accrue interest at 4%. The Hospital can repay the AAPP advancement at any time.

Equipment Purchases

The Hospital has entered into commitments to purchase equipment with a total cost of approximately \$2,235,000. Funding for the equipment purchases will be provided by provider relief funds and by funds generated internally.

Off Balance Sheet Risk

The Foundation maintains its deposits at several banks in the area. At various times throughout the year and at year end, the deposits in the banks exceeded the FDIC insured deposits limit for one entity (by approximately \$105,300 at year end). Management of the Foundation has received no indication of any potential viability problems with these banks by the date of this report.

The Foundation maintains approximately \$3,923,000 of its investment portfolio in various mutual funds, none of which are covered by any form of insurance against loss.

Subsequent Events

The Hospital has evaluated all subsequent events through February 12, 2021, the date the financial statements were available to be issued.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2020 and 2019

NOTE R - CHANGE IN ACCOUNTING ESTIMATE

As a result of recent decisions made by the Medicare fiscal intermediary related to the allowability of home office costs, the Hospital received additional reimbursement on the settlement of its cost reports for 2010 to 2016. As a result, the Hospital revised its estimate of potential third party payors settlements in 2019. The result of this change in estimate (a \$1,550,000 increase in assets/decrease in liabilities and increase in net revenue) has been reported as part of net patient service revenue on the statement of revenues, expenses and changes in net position.

NOTE S - MATTERS AFFECTING CURRENT AND SUBSEQUENT YEARS OPERATIONS

On March 11, 2020 the World Health Organization declared the Novel Coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of March 16, 2020 the Hospital limited operations per recommendations of the Governor and Department of Public Health and remained limited through June 1, 2020 when the Hospital reopened with modification to operations. The Hospital cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact the Hospital's financial position, result of activities or cash flows in 2021 and beyond.

NOTE T - NEW ACCOUNTING GUIDANCE IMPLEMENTATION - FOUNDATION

*ASU No. 2018-08*

During the year ended June 30, 2020, the Foundation adopted Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improve guidance to better distinguish between conditional and unconditional contributions. Analysis of the various provisions of this standard resulted in no significant changes in the way the Foundation recognizes contributions received.

\* \* \*

## REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Budgetary Comparison Schedule  
Year Ended June 30, 2020

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the accrual basis used to prepare the budget. The adjustments result from accounting for interest, and net position differently for financial statement and budget purposes.

	Per Hospital Financial Statements			
	Unrestricted Fund	Restricted Fund	Total	
Amount raised by taxation	\$ 635,664	\$ --	\$ 635,664	
Other revenues	19,924,618	884,501	20,809,119	
Transfers in (out)	<u>915,862</u>	<u>( 915,862)</u>	<u>--</u>	
	21,476,144	( 31,361)	21,444,783	
Expenses	<u>22,058,987</u>	<u>--</u>	<u>22,058,987</u>	
Net	( 582,843)	( 31,361)	( 614,204)	
Balance beginning of year	<u>12,893,507</u>	<u>52,924</u>	<u>12,946,431</u>	
Balance end of year	<u>\$ 12,310,664</u>	<u>\$ 21,563</u>	<u>\$ 12,332,227</u>	
	Total Per Hospital Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 635,664	\$ --	\$ 635,664	\$ 602,131
Other revenues	<u>20,809,119</u>	<u>507,237</u>	<u>21,316,356</u>	<u>22,408,771</u>
	21,444,783	507,237	21,952,020	23,010,902
Expenses	<u>22,058,987</u>	<u>507,237</u>	<u>22,566,224</u>	<u>22,634,000</u>
Net	( 614,204)	--	( 614,204)	376,902
Balance beginning of year	<u>12,946,431</u>	<u>( 2,864,279)</u>	<u>10,082,152</u>	<u>10,082,152</u>
Balance end of year	<u>\$ 12,332,227</u>	<u>\$( 2,864,279)</u>	<u>\$ 9,467,948</u>	<u>\$ 10,459,054</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Schedule of the Hospital's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System  
For the Last Six Years

Required Supplementary Information

	<u>2020</u>	<u>2019</u>
Hospital's proportion of the net pension liability	0.107740%	0.106489%
Hospital's proportionate share of the net pension liability	\$ 6,239,000	\$ 6,739,000
Hospital's covered payroll	\$ 8,261,000	\$ 8,055,000
Hospital's proportionate share of the net pension liability as a percentage of its covered payroll	75.52%	83.66%
IPERS' net position as a percentage of the total pension liability	85.45%	83.62%

Note - In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year. Amounts reported are rounded.

See accompanying independent auditor's report.

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
0.096686%	0.090076%	0.087397%	0.082888%
\$ 6,441,000	\$ 5,669,000	\$ 4,318,000	\$ 3,287,000
\$ 7,321,000	\$ 6,582,000	\$ 6,103,000	\$ 5,602,000
87.98%	86.13%	70.75%	58.68%
82.21%	81.82%	85.19%	87.61%

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Schedule of Hospital Contributions

Iowa Public Employees' Retirement System  
For the Last Ten Years

Required Supplementary Information

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily required contribution	\$ 794,300	\$ 785,700	\$ 727,300	\$ 662,200
Contributions in relation to the statutorily required contribution	<u>( 794,300)</u>	<u>( 785,700)</u>	<u>( 727,300)</u>	<u>( 662,200)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Hospital's covered payroll	\$ 8,302,000	\$ 8,261,000	\$ 8,055,000	\$ 7,321,000
Contributions as a percentage of covered payroll	9.57%	9.51%	9.03%	9.05%

Note - Amounts are rounded

See accompanying independent auditor's report.

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 590,000	\$ 552,000	\$ 502,000	\$ 454,000	\$ 390,000	\$ 338,000
<u>( 590,000)</u>	<u>( 552,000)</u>	<u>( 502,000)</u>	<u>( 454,000)</u>	<u>( 390,000)</u>	<u>( 338,000)</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ 6,582,000	\$ 6,103,000	\$ 5,602,000	\$ 5,234,000	\$ 4,829,000	\$ 4,860,000
8.96%	9.04%	8.96%	8.67%	8.08%	6.95%

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Notes to Required Supplementary Information - Pension Liability  
Year Ended June 30, 2020

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

\* \* \*

## SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2020

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant or Program Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture			
Direct Programs			
Community Facilities Loans and Grants Program	10.766	445172AB5 & 445172AC3	\$ 2,817,575
Indirect Programs			
Passed through Webster County Health Department Special Supplemental Nutrition Program for Women, Infants and Children	10.557	5889AO50	<u>6,199</u>
<i>Total U.S. Department of Agriculture</i>			2,823,774
U.S. Department of Health and Human Services			
Indirect Programs			
Passed through Elderbridge Agency on Aging Special Programs for the Aging Title III, Part D Disease Prevention and Health Promotion Services	93.043		1,486
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers - Homemaker Services	93.044		7,048
Special Programs for the Aging to Provide Personal Care Services	93.044		<u>6,291</u> 13,339
Passed through Iowa Department of Public Health COVID-19 Crisis Response Supplemental Funding	93.074	5885BT446	8,040
Small Hospital Improvement Program	93.301	5886BT351	36,766
Passed through Humboldt County Board of Health Immunization Cooperative Agreements	93.268	5880I444	5,437
Passed through Your Own United Resources, Inc. Early Head Start	93.600		23,320
Passed through Webster County Health Department Maternal and Child Health Services Block Grant to the States	93.994	5880C046	<u>7,271</u>
<i>Total U.S. Department of Health and Human Services</i>			<u>95,659</u>
Total Expenditures of Federal Awards			<u>\$ 2,919,433</u>
<i>Total Direct Programs</i>			<u>\$ 2,817,575</u>
<i>Total Indirect Programs</i>			<u>\$ 101,858</u>

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Schedule of Expenditures of Federal Awards - Continued  
Year Ended June 30, 2020

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Humboldt County Memorial Hospital under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Humboldt County Memorial Hospital, it is not intended to and does not present the financial position, changes in financial position, or cash flows of Humboldt County Memorial Hospital.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - SUBRECIPIENTS

No federal grant awards were passed through to subrecipients during the year ended June 30, 2020.

NOTE D - INDIRECT COST RATE

Humboldt County Memorial Hospital has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE E - COMMUNITY FACILITIES LOANS AND GRANTS PROGRAM

As of June 30, 2020, Humboldt County Memorial Hospital had interim financing with an outstanding balance of \$12,385,982 which has been converted to a USDA direct loan subsequent to year end.

See accompanying independent auditor's report.

## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

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## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees  
Humboldt County Memorial Hospital  
Humboldt, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of Humboldt County Memorial Hospital and its discretely presented component unit, Humboldt County Memorial Hospital Foundation, as of and for the years ended June 30, 2020 and 2019, and the related notes to financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated February 12, 2021.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Humboldt County Memorial Hospital's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Humboldt County Memorial Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of Humboldt County Memorial Hospital's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies: 20-II-A.

To the Board of Trustees  
Humboldt County Memorial Hospital

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Humboldt County Memorial Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

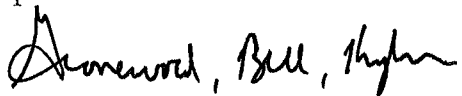
Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### Humboldt County Memorial Hospital's Responses to Findings

Humboldt County Memorial Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Humboldt County Memorial Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

 Kenneth Bell, CPA & Co. P.C.

Atlantic, Iowa  
February 12, 2021

# Gronewold, Bell, Kyhnn & Co. P.C.

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## Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Trustees  
Humboldt County Memorial Hospital  
Humboldt, Iowa

### Report on Compliance for Each Major Federal Program

We have audited Humboldt County Memorial Hospital's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the Hospital's major federal program for the year ended June 30, 2020. The Hospital's major federal program is identified in the summary of the independent auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

### Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Hospital's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

### Opinion on The Major Federal Program

In our opinion, Humboldt County Memorial Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

To the Board of Trustees  
Humboldt County Memorial Hospital

Report on Internal Control Over Compliance

Management of Humboldt County Memorial Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Deborah Bell, CPA + Co. P.C.*

Atlantic, Iowa  
February 12, 2021

HUMBOLDT COUNTY MEMORIAL HOSPITAL

Schedule of Findings and Questioned Costs

Year ended June 30, 2020

PART I: Summary of the Independent Auditor's Results

*Financial Statements*

- (a) Type of auditor's report issued:
- Unmodified
- (b) Internal control over financial reporting:
- Material weakness(es) identified?        yes   X   no
  - Significant deficiency(ies) identified?   X   yes        none reported
- (c) Noncompliance material to financial statements noted?        yes   X   no

*Federal Awards*

- (d) Internal control over major programs:
- Material weakness(es) identified?        yes   X   no
  - Significant deficiency(ies) identified?        yes   X   none reported
- (e) Type of auditor's report issued on compliance for major program:
- Unmodified
- (f) Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance [2CFR 200.516(a)]?        yes   X   no
- (g) Identification of major programs:
- CFDA Number 10.766 - Community Facilities Loans and Grants Program
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.
- (i) Auditee qualified as low-risk auditee?        yes   X   no

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2020

PART II: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES

20-II-A Segregation of Duties:

Criteria: Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Hospital's financial statements.

Condition: A limited number of people have the primary responsibility for most of the accounting and financial reporting duties.

Cause: The Hospital has a limited number of employees which does not allow procedures to be established to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect: Inadequate segregation of duties could adversely affect the Hospital's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were reported.

Part III: Findings and Questioned Costs for Federal Awards

INTERNAL CONTROL DEFICIENCIES

No matters were reported.

INSTANCES OF NON-COMPLIANCE

No matters were reported.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2020

PART IV - Other Findings Related to Required Statutory Reporting

20-IV-A Certified Budget: Hospital expenditures during the year ended June 30, 2020 did not exceed the amount budgeted.

20-IV-B Questionable Expenses: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Various Organizations	Employee recognition banquet	\$ 5,000

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

Additionally, certain expenses were noted which may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public purpose has not been clearly documented. The expenses were as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Various restaurants	Reimbursement of meal expenses	\$ 1,896

The expenditures tested were not supported by an itemized receipt of the total cost, which does not clearly document the public purpose of the expenditure.

Recommendation: We recommend that the Hospital establish written policies and procedures requiring detailed receipts, and clear documentation of the business purpose. This will not only ensure that public purpose is documented, but will also ensure the IRS requirements of an accountable plan are met so that the amounts paid to employees under the plan are treated as a non-taxable reimbursement to the employee.

Response: We will establish written policies and require detailed receipts and documentation of public purpose in the future.

Conclusion: Response accepted.

HUMBOLDT COUNTY MEMORIAL HOSPITAL  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2020

PART IV - Other Findings Related to Required Statutory Reporting - Continued

20-IV-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

20-IV-D Business Transactions: No business transactions between the Hospital and Hospital officials or employees were noted.

20-II-E Restricted Donor Activity: No transactions were noted between the Hospital, Hospital officials, Hospital employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

20-IV-F Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

20-IV-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

20-IV-H Economic Development: During the year ended June 30, 2020, the Hospital paid \$1,000 to the Humboldt County Development Association. The Hospital Board has documented the public benefits received from this expenditure, however, it is disclosed here for public information.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses the specific criteria to be considered in documenting public purpose.

Recommendation: The Board should continue to evaluate and document the public purpose served by these expenditures before authorizing further payments.

Response: We will continue to evaluate and document the public purpose in the future.

Conclusion: Response accepted.

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